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Money Laundering in China: Why PACOM Should Place High Priority on this Issue

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Gregory D. Ford

PACOM has an AOR spanning more than half of the world encompassing thirty six countries.¹ Recent headlines identify a range of issues in the region including territorial disputes, violent extremist organizations (VEO) disrupting sovereign governments, and concerns raised by China's increasing economic and military presence on the world stage. With the range and complexity of issues present, should money laundering in China be a high priority for PACOM?

To answer that question, it will be necessary to first examine the focus areas related to engagement and countering transnational organized crime (TOC) and VEO identified in PACOM's 2010 strategic guidance.² Activities being conducted by TOC and VEO in China and how they impact U.S. interests will then be analyzed. With a clear understanding of the wide ranging impact of TOC and VEO activities in China, an examination of the crime of money laundering and how it facilitates those activities can be undertaken. This will result in a solid understanding of the importance of money laundering in China and the correlation between that issue and the goals of PACOM. The logical conclusion will be PACOM should place high priority on the issue of money laundering in China because it threatens stability in the AOR by facilitating the actions of TOC and VEO while also creating opportunities for U.S. engagement with China.

PACOM STRATEGIC GUIDANCE

PACOM's 2010 Strategic Guidance identifies five focus areas designed to achieve the end state of a stable Asia-Pacific region and a secure United States.³ The focus areas that will be addressed are the "Counter Transnational Threats" focus area along with the "Mature the U.S.-

¹ Timothy J. Keating, *USPACOM Strategy*, United States Pacific Command, November 2008, 1-2.

² Robert F. Willard, *PACOM Strategic Guidance*, 2010.

³ *Ibid.*

China Military to Military Relationship” focus area. Summarizing the identified focus areas, the objective is partnering to counter TOC, VEO, and the proliferation of weapons of mass destruction along with increasing partnerships with China on issues of mutual concern.⁴ While the proliferation of weapons of mass destruction is a broad threat, we will confine it to the potential for VEOs to obtain weapons of mass destruction. Since elements of the focus areas pertain to TOC and VEO it is logical to explore TOC and VEO activities in China.

TOC AND VEO IN CHINA

Organized crime in China plays a large role in transnational crime throughout the AOR. A U.S. Department of Justice report indicates Japan identifies the presence of Chinese immigrants involved in organized crime as a major concern. It also states, Filipino authorities are troubled by the importation of amphetamines into their country from China and state the illegal narcotic business in the Philippines is controlled by individuals of Chinese descent.⁵ The triads have been part of China for centuries. A discussion paper prepared by the Australian government provides evidence of triad related crime reaching beyond China’s borders:

“Although the criminal activities of triad members can be thought of as constituting both domestic and international activities, even domestic activities such as illegal gambling, extortion, and prostitution often have an international element. For example, prostitutes are imported or smuggled, sometimes against their will, over national borders, while proceeds from illegal domestic activities such as gambling are often laundered internationally.”⁶

⁴ Ibid.

⁵ “Asian Transnational Organized Crime and Its Impact on the United States”, U.S. Department of Justice, Office of Justice Programs, National Institute of Justice, January 2007, 9-10 and 13. www.ncjrs.gov/pdffiles1/nij/214186.pdf Accessed on 22Sep12.

⁶ “Asian Organized Crime in Australia: A discussion Paper by the Parliamentary Joint Committee on the National Crime Authority”, Parliament of the Commonwealth of Australia, February 1995, Chapter 4, Section 9. www.fas.org/irp/world/australia/docs/ncaaoc2.html#head41 Accessed on 22Sep12.

As China continues to open itself to the outside world and the country's economy becomes increasingly tied to those of other nations, opportunities for TOC and VEO increase. These opportunities include exploitation of trade routes and money flow associated with China's globalization. One example is the growing export ties between China and Latin America. Indications are crime involving the two regions includes human trafficking through Latin America to North America as well as trafficking in narcotics, precursor chemicals and counterfeit goods.⁷ The previous examples demonstrate effects of TOC in China reach outside China's borders impacting numerous stakeholders in the PACOM AOR and beyond.

VEO have also used China's financial system for their benefit. An article from earlier this year details how an Islamic Jihad and Hamas operative in China would receive funds into his Bank of China account from militant leaders in Iran. Subsequently, he would wire the money from China to operatives in the West Bank and Gaza to fund acts of violence.⁸ This exemplifies how the sheer volume of money moving in and out of China to nations all over the world through financial institutions can conceal the transfer of funds for illicit purposes.

The common belief is movement of illicit money has shifted more towards the underground banking system as a result of increased oversight of the formal banking system.⁹ Whether it is a true hawala or a variation thereof, they provide avenues for VEO to continue to fund operations. Indications are Southeast Asia took on a prominent role in the financing of

⁷ Evan Ellis, "Organized Crime Exploits China's Growing Links to Latin America", The Jamestown Foundation, China Brief, Volume 12, Issue 11, May 25, 2012.

www.jamestown.org/single/?no_cache=1&tx_ttnews%5Btt_news%5D=39422 Accessed on 22Sep12.

⁸ Leland Vittert, "Lawsuit Alleging Bank of China Laundered Terrorists' Money Moves Forward", FoxNews.com, March 21, 2012. www.foxnews.com/world/2012/03/21/case-against-bank-china-for-facilitating-terrorism-proceeds/ Accessed on 22Sep12.

⁹ Rob McCusker, "Underground Banking: Legitimate Remittance Network or Money Laundering System?", Trends and Issues in Crime and Criminal Justice, Australian Institute of Criminology, No. 300, July 2005, 3. www.aic.gov.au/documents/A/0/C/%7BA0C5EAE8-9D4A-4BD6-8B6D-C65F-46C3FBE8%7Dtandi300.pdf Accessed on 25Sep12.

terrorism after 9/11 due to the increased scrutiny placed on the funding channels in the Middle East.¹⁰ China has had a large underground banking network for some time. “In 1983, DEA originated documents postulating the existence of an underground banking system dominated by Chinese in Southeast Asia.”¹¹ With Chinese citizens relocating to different areas of the world to support Chinese industry that network is likely to grow, increasing the potential for its use by VEO and TOC.

MONEY LAUNDERING

A common characteristic of the previously discussed crimes is none of them can come to fruition unless the TOC group or VEO possessed funding to accomplish them. The definition of money laundering used by the United States Department of the Treasury begins to explain why money laundering, above other crimes, is worthy of attention:

“... financial transactions in which criminals, including terrorist organizations, attempt to disguise the proceeds, sources or nature of their illicit activities. Money laundering facilitates a broad range of serious underlying criminal offenses and ultimately threatens the integrity of the financial system.”¹²

The key is the act of money laundering provides financial benefits to those groups seeking to portray their illicit earned income as licit. This provides organizations with a flow of seemingly clean money to use in furtherance of their illicit activities. The Chinese government believes

¹⁰ Zachary Abuza, “Asia Hasn’t Stopped the Terror Funding”, Asian Wall Street Journal, October 1, 2003. www.apgml.org/frameworks/docs/7/Abuza%202003_Oct_%20Asian%20TF.doc Accessed on 25Sep12.

¹¹ Larry B. Lambet, “Underground Banking: Money Movement in Asian Communities”, 2001, 8. www.asiancrime.org/pdfdocs/Underground_Banking_Money_Movement_in_Asian_Communities.pdf Accessed on 25Sep12.

¹² U.S. Department of the Treasury website, www.treasury.gov/resource-center/terrorist-illicit-finance/pages/money-laundering.aspx Accessed on 13Sep12.

money laundering may increase as a result of the dynamics of the country's economy.¹³ A 2006 article in "Asia Law" states, estimates for the amount of money laundered in China range from \$25 billion to \$200 billion. In 2005, \$25 billion would have equated to approximately 2% of China's GDP.¹⁴ Those funds are then available to support additional criminal and extremist activity. Cutting off funds to TOC and VEO can significantly impact operations. The U.S. State Department articulates this point very well stating:

"Money laundering has potentially devastating economic, security, and social consequences. It provides the fuel for drug dealers, terrorists, illegal arms dealers, corrupt public officials, and others to operate and expand their criminal enterprises."¹⁵

China has opened up to international engagement on the issue of money laundering. The Financial Action Task Force (FATF), a multi-national organization responsible for anti-money laundering (AML) regulation and enforcement standards, conducted its first of several evaluations of China in 2007. Between 2007 and 2012, China made significant progress implementing the FATF's recommendations.¹⁶ This openness is contrary to China's stance on other issues which indicates AML may be an area China would be willing to engage with the U.S. as it is still unclear how effective the Chinese AML strategy will be.

¹³"Anti-Money Laundering and Combating the Financing of Terrorism: People's Republic of China", First Mutual Evaluation Report, Financial Action Task Force, June 29, 2007, 7. www.fatf-gafi.org/media/fatf/documents/reports/mer/MER%20China%20full.pdf Accessed on 12Sep12.

¹⁴George W. Russell, "Dirty Money: Cleaning up China's Securities and Insurance Markets", Asia Law, May 2006. www.asialaw.com/article/1971354/search/results/dirty-money-cleaning-up-chinas-securities-and-insurance.html Accessed on 22Sep12.

¹⁵ John McDowell and Gary Novis, "The Consequences of Money Laundering and Financial Crime", U.S. State Department, Bureau of International Narcotics and Law Enforcement Affairs, May 2001, 1. www.apgml.org/issues/docs/30/Negative%20of%20ML_Economic%20Perspectives%20May%202001.pdf Accessed on 22Sep12.

¹⁶ "Anti-Money Laundering and Combatting the Financing of Terrorism: China", Mutual Evaluation, 8th Follow-up Report, Financial Action Task Force, February 17, 2012. www.fatf-gafi.org/media/fatf/documents/reports/mer/Follow%20Up%20MER%20China.pdf Accessed on 12Sep12.

PACOM INVOLVEMENT

The case has been made that TOC and VEO operating in and through China have an impact in China and throughout the PACOM AOR. It has also been established money laundering is an enabler of illicit activities perpetrated by TOC and VEO. Therefore, effective anti-money laundering efforts in China will have impact throughout PACOM's AOR. Joint Interagency Task Force (JIATF) -West is a component of PACOM and would provide great value to China's AML efforts especially criminal and financial intelligence. JIATF-West's mission is to battle drug related TOC in the PACOM AOR yet a review of the JIATF-West partners shows China, among other countries, is absent from the list.¹⁷ Given the description of the effect China based TOC has on the PACOM AOR, this leaves a large blind spot and intelligence gap in the battle against TOC and VEO in Asia.

PACOM can also leverage its relationship with the military criminal investigative organizations (MCIOs) such as NCIS, Air Force OSI and Army CID to engage China on money laundering. As PACOM struggles to have meaningful engagement with China, perhaps engaging on a topic threatening to both could provide a starting point for more significant military-to-military engagement. The MCIOs already work with Chinese law enforcement on force protection efforts for forces visiting China, in particular Hong Kong, as well as on military related criminal investigations. The MCIOs are also adept at providing foreign law enforcement with training on various investigative techniques.

There is an argument that the military should not concern itself with an issue such as this. That argument however does not align with the focus areas of PACOM. While the mission of

¹⁷ USPACOM website, www.pacom.mil/organizaton/staff-directorates/jiatf-west/index.shtml Accessed on 25Sep12.

the military has always been to win wars, efforts have shifted to preventing wars through the completion of actions described in documents like the PACOM strategic guidance. As the role of the combatant commander evolves, the military should look for unique and innovative ways to accomplish its goals, even if the methods of doing so fall, sometimes uncomfortably, outside the traditional roles of the military.

CONCLUSION

Based on the effects TOC and VEO in China have on the PACOM AOR and the world, along with the fact AML decreases funding needed by TOC and VEO to further their operations, it is clear a more effective AML program in China will benefit PACOM. PACOM participation will serve to lessen what is now a significant blind spot with regard to all criminal intelligence related to TOC and VEO in China. This will allow PACOM entities to more effectively combat TOC and VEO as required by the command's strategic guidance while opening up new engagement opportunities. These activities can be done with existing resources, perhaps requiring some reprioritization. Given the mission of PACOM and the funding and manpower that would need to be dedicated to these efforts, the cost is small when compared with the potential benefits.